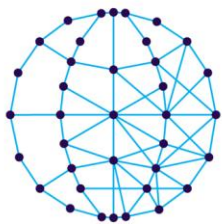


*Cooperatives : The Power to Act*

Texts selected for the international calls of paper

# THE ROLE OF TRUST IN COOPERATIVE ORGANIZATIONS' LIFE CYCLE

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**QUEBEC** INTERNATIONAL  
**2016** SUMMIT  
OF COOPERATIVES

## Abstract

Cooperatives are formed by members, frequently small economic agents. This research tries to answer the following question: What is the role of trust in cooperatives within their cultural and institutional frameworks? That is, we seek to develop a conceptual analysis of trust behavior in the life cycle of cooperatives as calculus-based trust, knowledge-based trust, and identity-based trust. Our contribution also describes levels of trust quality, such as integrity, competence and benevolence. The hypothesis is that trust, as a social capital, has different characteristics in the cooperative's organizational time line, building on changing characteristics of the membership composition. The latter modifies trust in members' relationships and the social capital of the cooperative as a whole. This paper is a theoretical approach, and the model explains the different membership characteristics in cooperatives and combines the ideas of trust and membership heterogeneity dynamics. The focus is on agricultural cooperatives, specifically in marketing and processing cooperatives in the agribusiness economic sector. The membership of these cooperatives is characterized by a high level of heterogeneity.

**Key words:** Cooperatives, Trust, Life Cycle.

## Résumé

Les coopératives sont formées par des membres, souvent des agents économiques de petite taille. Cette recherche s'intéresse à la question suivante : Quel est le rôle de la confiance dans les coopératives et dans le contexte culturel et institutionnel ? C'est-à-dire que nous cherchons à développer une analyse conceptuelle du comportement de confiance dans le cycle de vie des coopératives, comme la confiance basée sur le calcul, la confiance basée sur la connaissance et la confiance basée sur l'identité. Notre contribution décrit également les niveaux de qualité de la confiance tels que l'intégrité, la compétence et la bienveillance. L'hypothèse est que la confiance, en tant que capital social, présente plusieurs caractéristiques dans l'historique organisationnel de la coopérative et se construit sur les caractéristiques changeantes de la composition des adhérents. Celle-ci modifie la confiance dans les relations entre membres et le capital social de la coopérative dans son ensemble. Ce papier est une démarche théorique et le modèle décrit les différentes caractéristiques des coopératives, combinant les idées de confiance et de dynamiques d'hétérogénéité des membres. Il se focalise sur les coopératives agricoles, en particulier les coopératives de marketing et de transformation dans le secteur agroalimentaire, les membres de ces coopératives se caractérisant par une hétérogénéité marquée.

## Resumen

Las cooperativas están formadas por miembros que son, con frecuencia, pequeños agentes económicos. Esta investigación intenta responder la siguiente pregunta: ¿cuál es la función de la confianza en las cooperativas dentro de sus marcos cultural e institucional? Es decir, buscamos desarrollar un análisis conceptual del comportamiento relacionado con la confianza en el ciclo de vida de las cooperativas como confianza basada en el cálculo, confianza basada en el conocimiento y confianza basada en la identidad. Nuestra contribución también describe los niveles de calidad de la confianza, como la integridad, la competencia y la benevolencia. La hipótesis es que la confianza, como capital social, tiene diferentes características en la línea de tiempo organizacional y se construye

sobre la base de las características cambiantes de la composición de los afiliados. Esto último modifica la confianza en las relaciones de los miembros y el capital social de la cooperativa como un todo. Este documento es un enfoque teórico; el modelo explica las diferentes características de membresía en las cooperativas y combina las ideas de la dinámica entre la confianza y la heterogeneidad de los miembros. El centro son las cooperativas agrícolas, específicamente, las cooperativas de comercialización y procesamiento en el sector económico de los agronegocios. La membresía de estas cooperativas está caracterizada por un alto nivel de heterogeneidad.

## Introduction

Cooperatives are organizations established on the basis of members' shared interests in collectively developing economic and social capital. Cooperatives' governance is unique, with the egalitarian idea of each member having only one vote, independent of the amount of capital invested in the organization; there is democratic control by the members, and the members are simultaneously the owners, managers and customers in the organization. In cooperatives, the members are the agents and principals in the same contractual relationship. (Bialoskorski Neto, 2006).

In the economic growth process, cooperatives start from the initial homogeneity of membership and subsequently could find challenges related to economic efficiency, and economies of scale and scope. In this process large-scale operations, in some cases involving extensive diversity of members—heterogeneity in membership—leads to cooperatives losing social capital and interferes in organizational governance and efficiency. Cook (1995) and Cook and Burrell (2009) explain the importance of membership heterogeneity in causing fragmentation with regard to the purpose and economic direction. Principally, this occurs in the two last stages of the life cycle called “recognition and introspection” and “choice,” which are crucial points in terms sustained success and failure of the cooperative.

Hansmann (1996) explains that cooperatives with homogeneous membership could have low agency costs, but according to Bialoskorski Neto, Barroso and Rezende (2012), cooperative organizations with membership heterogeneity are formed by multiple principals, with high agency costs; consequently, the members need not only monitor information flows to control decision making, but also have trust in the cooperative governance processes. Trust can reduce agency costs in organizations with multiple principals that have significant monitoring requirements due to informational asymmetry between the members and the organizational leadership (Bachmann, 2001).

Sabatini, Moden and Tortia (2014) show the importance of cooperatives in creating trust in the Italian case and conclude that cooperatives are the only type of organization where the work environment creates trust among the workers. Gijssels and Bussels (2014) show that the general levels of societal trust is correlated with the number and size of cooperatives in the European Union member states. The socioeconomic dynamics in the membership of cooperatives may also be important in this analysis.

The concept of “pertenecimiento”<sup>ii</sup>—belonging—could indicate trust among members and is a cultural insight that could help explain social organizations' life cycle dynamics. At each stage of cooperatives' life cycle, there are certain trust conditions—based on cultural path dependence—collectivism or individualism—that trigger different behaviors within the organizations. Svendsen and Svendsen (2000)

argue that group members who trust each other can accomplish more economic growth than similar groups without trust.

The hypothesis is that trust, as an important social capital, has different characteristics in the cooperative organizational time line with regard to the economic objectives, focus modifications and membership composition. The proposition is that the growth of cooperative organizations' and the normal organizational life cycle imply a changing membership composition over time. The membership composition modification leads to changes of characteristics of trust, and trust modifies the relationships among members throughout the life of the cooperative.

The research question is as follows: Can trust explain the social dynamics of cooperatives' life cycle? To answer this question, the paper first discusses various forms of cooperative organizations and various characteristics of trust. Next, it describes cooperatives' life cycles and develops a model that includes the dynamics of membership characteristics. Finally, it considers a new research agenda for understanding how cooperatives can stabilize the stages of economic growth on the basis of trust and social capital. Throughout the paper, we focus on agricultural cooperatives, specifically marketing and processing cooperatives, with a heterogeneity in their membership in the temporal perspective.

## Trust in Organizations

Organizational trust research has developed a number of concepts to analyze the quality of relationships among and between organizations. Organizational Networks and hybrid organizational forms are of specific interest in this context (e.g., Sydow, 1998), although little research has been conducted on the role of trust in agricultural or other cooperatives.

Trust can be seen as a "social coordination mechanism" (Bachmann 2001) that aligns expectations between relevant actors. These expectations are based on incomplete and/or imprecise information on the part of actor A (i.e., the trustor) about the future behavior of actor B (i.e., the trustee). Hence trust will always come with the risk that the trustor's expectations will be disappointed. If that were not the case, there would be no need for trust because B's future behavior would be predictable. Trust, in other words, extrapolates from the available information and requires a 'leap of faith' (Moellering, 2006).

It is widely assumed that trust can save transaction costs (Nooteboom, 2002) and stimulate innovation and performance (Sako, 1998). Hence, much attention has been paid to the question of how to build trust in organizational settings. In this context, it has become clear that trust is not a static phenomenon but rather develops and also can erode over time. Trust can increase within a certain period of time but can also decrease and may, through internal or external shocks, even be destroyed in a relatively short period.

Lewicki and Bunker (1996) describe three general characteristics of trust that can be applied to understand the life cycle phases of organizations. The first is calculus-based trust, i.e., a form of trust in which the trustor explicitly considers the costs, risks and likelihood of potential damage and future benefits. This is usually the first stage of the development of a trust-based relationship. The second stage of a successful relationship is characterized by knowledge-based trust, which occurs when the trustor develops positive expectations about the trustee's behavior on the basis of shared knowledge

about each other's circumstances, interests and preferences. Finally, relationships can be built on identity-based trust, which is a more advanced form of trust that occurs when one or both parties are prepared to actively promote the other party's interests, even if this brings extra costs that the trustor will bear unilaterally.

Another insight of trust research is that there are different types of trust that can either increase or decrease in the life cycle of a relationship. Mayer, Davis and Schoorman (1995) have suggested that there are three basic forms of trust: integrity trust, competence trust and benevolence trust. Integrity trust means that a trustor feels that the trustee can be trusted with regard to his integrity, whereas it is a different matter if a trustee is trusted with regard to his competence. One and the same person may be seen as trustworthy in terms of integrity but not in terms of competence, or vice versa. Benevolence trust, finally, is a particularly strong form of trust in which competence, integrity and benevolence or "goodwill" come together.

Lewicki and Bunkers' developmental model and Mayer, Davis and Schoorman's trust types can be combined into one concept that can explain how the different types of trust may develop differently over time in one specific relationship. We emphasize that competence trust, integrity-based trust and identity-based trust are not mere static entities but gain prominence and decline in a typical pattern over the life cycle of a relationship. For example, we would then assume that benevolence trust culminates in the advanced stages of relationship development, namely the stage of trust development in which Lewicki and Bunker expect identity-based trust, but will often to some extent also exist at the beginning of a relationship. Integrity-based trust and/or competence-based trust can be assumed to culminate early and perhaps will also play a role in relationships in which benevolence trust is already declining. These are issues that we must investigate more closely in the following.

### **Cooperatives' Life Cycle theory**

Eschenburg (1983) describes the life cycle of cooperatives in the following stages: social conquest, economic consolidation, organizational coexistence, transference of power consolidation, and enterprise consolidation. Important in all of these stages is how social capital loses its function when power is transferred from the members to the management board and how informational asymmetry increases between the management and its members. This life cycle process begins with the members having strong commitments to the organization. This lasts until the cooperative changes from a social organization to an ordinary enterprise which no longer has special relations with their members.

Hind (1999) discusses the cooperatives life cycle and suggests on the basis of empirical evidence that over time cooperatives change the composition of stakeholders, members, objectives and goals. This author explains that Stages 1 and 2 of the cooperatives life cycle have some distinct characteristics, such as small profit or surplus and very low interest in vertical integration. At the end of Stage 2, cooperatives turn from "Capital Extensive" to "Capital Intensive". In Stage 3, cooperatives become "Capital Accumulative" and have a high interest in vertical integration, while profits and surplus are redistributed to members and are important source of funding new investments. Stage 4 sees cooperatives turning into "Farmer Controlled Businesses," which means that the cooperative organization becomes more profit-driven with farmer interests aligned with this goal, the focus being

placed on vertical integration to gain more market control. At the final Stage 5, cooperative organizations are “Investor Oriented Firms,” profit driven and with clear profit-maximizing objectives.

Graig (1980), quoted by Hind (1999), explains that the membership can consist of “customers,” “disillusioned co-operators,” “co-operative enthusiasts” and “organizational people.” To a large extent, cooperatives depend on its dominant group. For example, when “organizational people” prevail the commitment to cooperative ideals will be strong. At the same time, the focus on ideals can be sacrificed for organizational gain and focus in the market. In any case, to understand the members’ aspirations and behavior is important when organizational objectives are under review.

**Table 1. Cooperatives’ Life Cycle and organizational characteristics according to Hind (1999)**

Cooperative Life Cycle	Organizational Characteristics
Stage 1 “Capital Extensive”	<ul style="list-style-type: none"> <li>• No, or small profits and surplus</li> <li>• Management “farmer centred”</li> <li>• Members from few to several thousands</li> <li>• Agricultural Specialist</li> <li>• Very low interest in vertical integration</li> </ul>
Stage 2 “Capital Intensive”	<ul style="list-style-type: none"> <li>• No, or small profits and surplus</li> <li>• Management in transition from “farmer centred” to “staff centred”</li> <li>• Members from few to several thousands</li> <li>• Agricultural Specialist</li> <li>• Very low interest in vertical integration</li> </ul>
Stage 3 “Capital Accumulative”	<ul style="list-style-type: none"> <li>• Profits and surplus are made – important source of funding</li> <li>• Management “staff centred”</li> <li>• Members from few to several thousands</li> <li>• Diversified agriculture</li> <li>• High interest in vertical integration</li> </ul>
Stage 4 “Farmer Controlled Business”	<ul style="list-style-type: none"> <li>• Profit are made, business at least partly profit driven but with farmer interests a concern</li> <li>• Management “staff centred”</li> <li>• Tendency to be large in number of members including non-farmers</li> <li>• Diversified Agricultural with consider complimentary non-agricultural portfolio</li> <li>• High interest in vertical integration if improve market control</li> </ul>
Stage 5 “Investor Oriented firm”	<ul style="list-style-type: none"> <li>• Profit driven business with a view to allocate reserves for assets growth with business concern</li> <li>• Management “staff centred”</li> <li>• No limitation on individuals in membership.</li> <li>• Diversified Agricultural no allegiance to any sector</li> <li>• High interest in vertical integration if improve market control or profitable</li> </ul>



Cook (1995) and Cook and Burrell (2009) in a working paper propose a new cooperative life cycle theory that initially had the following five stages: economic justification, organizational design, growth and glory, recognition, and the final choice. In this theory, the economic dimension is important to justify the initial cooperative processes. In the end of the life cycle, the organization must choose between “tinker” and “exit”.

**Table 2. Cooperatives’ Life Cycle according to Cook (1995) and Cook and Burrell (2009)**

Cooperative Life Cycle	Organizational Characteristics
1. Economic Justification	<ul style="list-style-type: none"> <li>• Collaboration to improve socioeconomic position</li> <li>• Countervailing power and economies of scale and scope</li> </ul>
2. Organizational Design	<ul style="list-style-type: none"> <li>• Cooperative form is chosen</li> <li>• Development of an organizational design that recognizes the existence of members’ heterogeneity</li> <li>• Cooperative principles impact residual claim and residual control</li> </ul>
3. Growth Glory Heterogeneity	<ul style="list-style-type: none"> <li>• Individual members of successful cooperative may experience divergence of interests</li> <li>• Heterogeneity in preferences threatens cooperative viability</li> <li>• Member patron versus collective organization increases collective decision-making process costs</li> </ul>
4. Recognition and Introspection	<ul style="list-style-type: none"> <li>• Members fall in the following categories: apathetic, targets of aggressive rivals, vacillators, and loyalists</li> <li>• Member heterogeneity inspires fragmented coalitions in terms of cooperative purpose and direction</li> <li>• Collective costs of decisions and conflict resolution</li> </ul>
5. Choice	<ul style="list-style-type: none"> <li>• Member patron must make a decision that affects organizational survival <ul style="list-style-type: none"> <li>✓ Reinvent - Change in ownership rights</li> <li>✓ Tinker - No change in ownership rights</li> <li>✓ Spawn - Organize separate entrepreneurial venture</li> <li>✓ Exit- Change from Cooperative to IOF</li> </ul> </li> </ul>

Source: Cook (1995) and Cook and Burrell (2009), elaborated by authors

Cooperatives’ life cycles, in both models, occur independently because economic competition and gains through the economies of scale and scope stimulate the organizational growth process. In this process, the social body of the membership changes. It becomes larger and more heterogeneous; additionally, informational asymmetry increases, agency costs rise, and social capital and trust decrease. These changes require cooperatives to redefine certain governance mechanisms and also their control and coordination mechanisms; however, this process will not be sufficient to avoid the loss of trust and, in consequence, the loss of social capital. According to Hind (1999), this situation can be quite stable, whereas Cook and Burrell (2009) suggest that this situation forces cooperatives to change their structures in the final life cycle stage.

In the theories of Eschenburg (1983), Hind (1999) and Cook (1995), the main point is how the economic growth process influences membership relations and organizational efficiency. The former author examines the process of transferring power from members to managers, which results in a loss of social capital; the latter author describes this process, particularly focusing on how membership heterogeneity can produce high transaction costs and governance problems pushing cooperatives to the final phase. In this way, understanding the dynamics of trust in the life cycle of cooperatives could help understand the organizational design efficiency. The hypothesis here is that if cooperative organizations can encourage trust among their ordinary members and between members and managers, they can also increase social capital and efficiency. Svendsen and Svendsen (2000) present empirical evidence that the level of trust decreased in Denmark when the dairy production was centralized. What they showed was that the social capital, including trust, decreased to the same extent as the gain from scale economy increased.

### **Analyzing membership heterogeneity**

Cooperatives are organizations featuring democratic control and producers' ownership. They are organized by the local community and reflect specific cultural and behavioral characteristics which are significantly different from IOFs (Investor Oriented Firms) (Bialoskorski Neto, 2012). In a cooperative, each member (farmer) is at the same time the owner of the organization (has property rights), the manager of the business (has decision-making power) and a customer of the organization (has user rights). In agricultural marketing and processing cooperatives in Brazil, membership is not restricted, which means that anyone can become a member of the cooperative at any time. The membership fee is always a low amount that does not represent a significant opportunity cost to the farmers.

The same occurs with membership agreement rights and obligations. However, it is very important that in most cases members do not have a contractual obligation to deliver their produce to the cooperative or buy inputs from the cooperative. Also, the members are not obliged to participate and vote in general assembly or otherwise exercise their decision-making power. Each member has economic independence and is free to participate in or abstain from economic activities of the organization. In general, the economic externalities of the cooperative have influence on local market prices of the produce as well as the inputs, such as fertilizers and other agrochemicals. In a cooperative, a farmer can access important services, such as technical assistance and market information. Additionally, a farmer can obtain quality generic inputs and have confidence in classification and weight of their deliveries.

Because the farmer can deliver his produce to other buyers, which may involve lower opportunity costs of patronage and economic independence, it does not matter if he is a cooperative member or not to have business alternatives. It is the confidence in the quality of the services offered by cooperatives which frequently attracts farmers to join cooperatives. Prices (which are similar to those of the rest of the market) are also relevant for the decision to become a member or not. However, all these economic externalities and benefits could be perceived differently by each member due to the membership heterogeneity.

Serigati and Furquim (2013) conclude that members' commitment to the cooperative is negatively correlated with the number of members and the heterogeneity of members' interests. Larger



cooperatives may have more membership heterogeneity and less membership participation. Pozzobon, Zylbersztajn and Bijman (2011) also study the importance of membership heterogeneity in cooperatives. They show that there are different sources of members' heterogeneity, ranging from the size of farms to the farmers' educational levels. These variables are important to explaining members' participation and cooperative performance. Pozzobon and Zylbersztajn (2013) suggest that there are significant difficulties for cooperatives to manage agency costs, which are proportional to the level of membership heterogeneity, and which also affect how the cooperatives can manage the costs of democratic decision making processes.

Jussila, Goel and Tuominen (2012) describe different kinds of cooperatives member behaviour according to the type of their commitment, differentiating between ideological commitment, attitudinal commitment, and utilitarian commitment. In the first case, members' behaviour is ideologically driven which means that their involvement in the cooperative builds on idealistic ideas, whereas attitudinal commitment means that the members follow routines but also seek an individual advantage when they interact with the cooperative. If a member's commitment connects to a utilitarian approach, the member is mainly interested in the cooperative's economic results.

Consequently, identifying the type of membership commitment and the level of heterogeneity is also important to understanding the role of trust in cooperatives. Trust occurs in relationships between ordinary members, the members and the board of managers, and the members and the organization as a whole. Bijman et al. (2012) analyze cooperatives in various European Union countries and show that the countries where cooperatives are strongly represented in markets are generally the same as those which are characterized by high levels of societal trust. It is important to differentiate between economic cooperation, commitment and trust. According to Mayer, Davis and Schoorman (1995), cooperation can co-exist with commitment and exclude trust. Trust only exists in the presence of uncertainty which constitutes a special relationship between the trustee and trustor, and can be correlated with different types of members and the life cycle of the organization. In other words, cooperative membership heterogeneity can significantly contribute to explaining the members' expectations with regard to collective action and the quality of relationships within the cooperative.

Member type A participated in the early phases of the development of the cooperative or knows other members who have participated from the beginning. He has strong social relations with other members and participates regularly in the social activities of the cooperative. He exclusively delivers to and buys from the cooperative; he does not compare potential buyers' offers, participates in the management of the organization and exercises his rights to contribute to making decisions. This member has "pertenecimento", and his involvement in the cooperative is based on cooperation, commitment and trust. This is an ideological basis for a member's commitment.

Member type B shows commitment to the cooperative but focuses on the economic dimension of his membership. This member looks only for the benefits of his involvement in the cooperative and does not like the related costs. He does not participate significantly or frequently in decision making processes. In other words, he exhibits "free rider" behavior. However, he does not look for business alternatives in the market and prefers economic exchanges with the cooperative. This member lives within the local community and is influenced and monitored by others in the neighborhood. Maintaining his

reputation requires him to almost exclusively do business with the cooperative. This member's behaviour is driven by an attitudinal commitment.

Member type C is a recent and occasional member. He is attracted by the cooperative's economic growth and only looks at the cooperative as a business option in the market. This type of member is interested in cooperation if this provides economic benefits to him. He does not show much commitment and sees his relationship with the cooperative only as business. This member likes the advantages of the economies of scale, price regulation, commodity classification or quality control of farm inputs. This member has no local social links, is not socially monitored by his neighbors, and has no reputation requirements. In general, he lives outside of the local community and is a stranger in the organization. This is a member whose behavior exhibits a utilitarian commitment.

### **The theoretical model: understanding the relationships between Life Cycle, Trust and Membership type**

Cooperatives start their organization process in Stage 1 of the life cycle: "Capital Extensive Co-op." Type A members who share the same clear economic objectives are active at this stage. Initially, there is calculus-based trust; leadership begins to appear within the organization, and is formed on the basis of members perceiving some other members as competent managers and economic experts. Throughout this initial process, integrity can also be perceived as important. At the end of this phase, the core group of leaders must devote their time and hard work to organizing the cooperative's operations and longer term strategies, and these efforts to help demonstrate goodwill among ordinary members and their leadership. This leads to benevolence trust as a characteristic of the cooperative in its formative stage.

However, **at this initial stage**, calculus-based trust is the fundamental focus, and competence trust is an equally important characteristic. Trust is only in the initial stage of its development, and all members involved in this process examine each other's behavior. If the competence of the leadership is proven and a purely calculative approach can identify more benefits than risks, trust can be consolidated. If this process is successful and economic organization of the cooperative emerges from the social dynamics.

**In Stage 2** of the life cycle, "Capital Intensive Co-op" decision-making power needs to be transferred from the whole membership to the board of managers. Management structure transforms from "Farmer Centred" to "Staff Centred" and type B members begin to join the cooperative. Calculus-based trust is still present with the new type B members but transforms into knowledge-based trust in the group of type A members. This process continues until all the trust can be characterized as knowledge-based. Evidently, competence is still important, the leadership's integrity grows in importance, and benevolence starts to become an underlying principle when trust between the members and the board is concerned. The board of managers needs to know what the members expect in terms of services and economic performance. They have to dedicate much effort to managing the cooperative's operations, even if this may result in financial losses of their own farm businesses. Only this can create goodwill trust within the organization. In this phase, knowledge-based trust remains characteristic and integrity-based trust coexists with a medium level of competence trust, with benevolence trust also becoming an important characteristic of the organization.

**In the next stage** of the life cycle, in the cooperative the growth process begins. The organization increases its efficiency, expands its economic services, and tries to achieve social efficacy through superior economic results. A “Capital Accumulative Co-op” needs economies of scale and scope, new markets and a strategic orientation. To maintain social and economic cohesion, managers have to provide new services and social assurance to type A and type B members. Cooperatives depend not only on the perceived competence and integrity of their leadership but also on unifying the membership by means of strong social linkages. Goodwill trust is essential to this end. Knowledge-based trust turns into identity-based trust, and trust also reflects considerations of benevolence. In this stage, there is a high level of identity-based trust in the cooperative and benevolence based trust moves center-stage to manage social membership cohesion. This is experienced as “*pertencimento*”, a deep sense of belonging to the cooperative.

However, this stage of the life cycle does not last forever but new challenges are on the horizon. The economic process requires the cooperative to look for type C members to allow for diversification of agricultural processes and continuity in economic growth. Type C members are attracted as additional cooperative members with other interests and perspectives. Altruism and benevolence remain at a high level among type A and type B members but also permit the presence of type C members, even with the understanding that type C members may bring opportunistic behavior into the organization.

**In Stage 4**, “Farmer Controlled Business,” begins and type C members become the most significant part of the membership; economic cooperation within the organization is not primarily built on commitment or trust but on price mechanisms and expected profits. The cooperative has become a profit-driven organization. Cooperatives consider the addition of non-agricultural portfolios and the membership increase in number and heterogeneity. This system influences type B members’ behavior, and type A members are gradually becoming a minor part of the membership. The membership significantly changes its characteristics; it is now heterogeneous, with rising free rider, horizon, and portfolio problems. The cooperative, at this stage, is usually a large organization, and its management is complex. The monitoring of economic activities by the members is difficult and opportunities to influence on decision making processes decrease. The professionalization of the organization brings new logics and alienates large parts of their membership.

Benevolence, goodwill and altruism no longer have a place in the economic logics of the organization; only price mechanisms and market orientation play a role and the decisions are driven by “market logics” rather than “membership logics”. The integrity of managers could be forgotten by the professionals, and only competence is seen as a relevant factor when a trustor considers his relationship to a trustee.

**In Stage 5**, called “Investor Oriented Firm” by Hind (1999), cooperatives are completely profit-driven, members no longer have limitations in number and intention, trust declines and is likely to be destroyed by the same speed as the membership heterogeneity and economic performance increase. When the lowest level of trust is reached, the cooperative has taken on new organizational behavior and might even choose another organizational form. In this Stage, alternatives are available, such as exit, i.e. destroying the cooperative’s initial characteristics and becoming an IOF efficient ordinary firm.

However, most common is the tinker option. In this case, the cooperative does not change the property rights arrangements and maintains the cooperative characteristics and advantages. It must then rebuild organizational trust to recreate social linkages.

**Table 3 Cooperative Life Cycles and Trust characteristics, adapted from Hind (1999) and Lewicki and Bunker (1996) and Membership and Trust characteristics**

Cooperative Life Cycle	Membership Characteristics	General Trust	Trust Characteristics
Stage 1 "Capital Extensive"	Member type A	Calculus-based Trust	Competence ++ Integrity + Benevolence+
Stage 2 "Capital Intensive"	Member types A and B	Knowledge-based Trust	Competence +++ Integrity ++++ Benevolence++
Stage 3 "Capital Accumulative"	Member types A, B and C are attracted	Identity-based Trust	Competence +++ Integrity +++ Benevolence+++++
Stage 4 "Farmer Controlled Business"	Member type C is majority, type B presents Other behavior, type A is insignificant minority.	Losing Trust Process	Competence + Integrity Benevolence
Stage 5 "Investor Oriented firm"	Member type C is majority, type B presents other behavior, type A is insignificant minority	Losing Trust Process	Competence + Integrity Benevolence

Source: Hind (1999), Lewicki and Bunker (1996) elaborated by authors

Figure 1. Composition of types of trust during each Cooperative Life Cycle Stages.

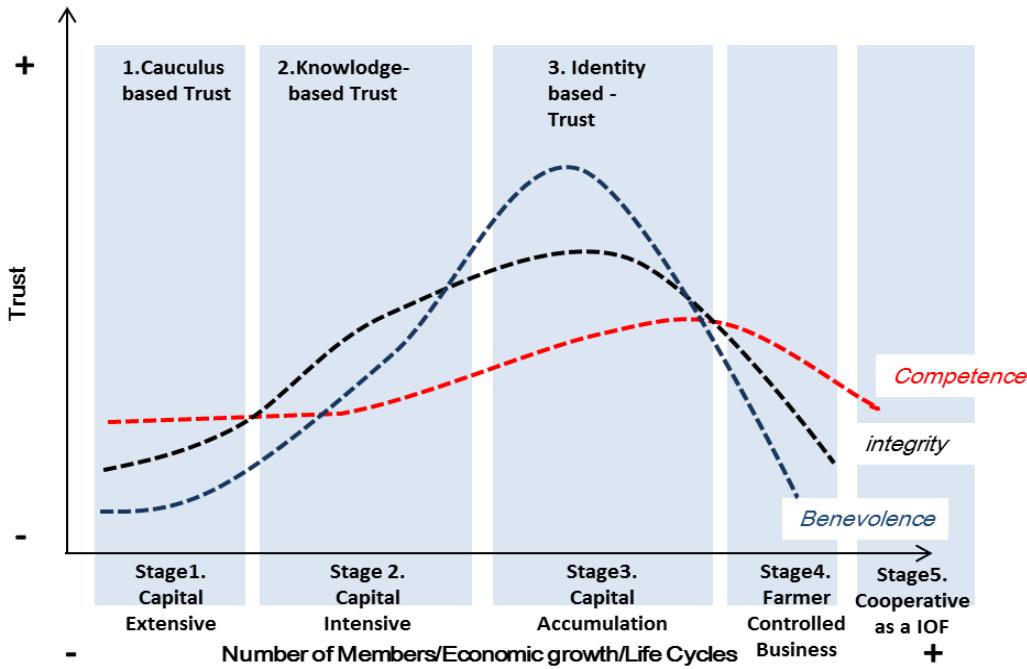
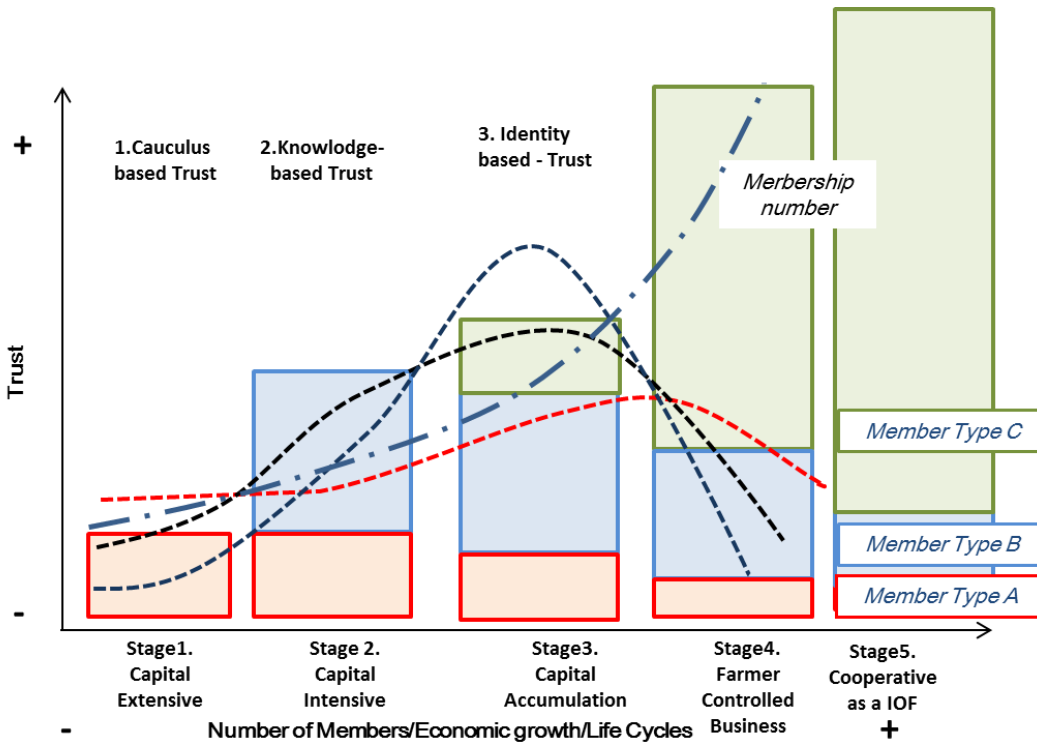


Figure 2 Model of trust characteristics, composition and cooperative membership composition in each Cooperative Life Cycle Stages.



**Figure 1** shows how membership grows both in terms number and heterogeneity in the cooperative's life cycle Stages. The level of trust increases in this process and quickly decreases when membership homogeneity goes down. The figure depicts general trust conditions and the trust levels throughout the cooperative's life cycle. Also, it shows the composition and dynamics of trust in each phase of the life cycle. Figure 2 refers to the same process but specifies at each moment the composition of trust (competence, integrity and benevolence). This helps understand the trust characteristics in relation to membership composition specifications (member types A, B and C). In this context, it is particularly important to analyze the last phase of the life cycle and understand how and why the trust process fails.

## Final Considerations

As we have shown in this contribution, cooperatives are organizations in which members' economic and social relations are important with regard to business performance, and trust is fundamental to understanding these relationships. In this context, the role of trust in the organizational life cycle is highlighted in a model which explains each phase of the life cycle in terms of forms of trust, such as calculus-based trust, knowledge-based trust, and identity-based trust. It is also shown that in each stage, there are different levels of each type of trust referring to 3 different dimensions of trust, i.e. integrity, competence and benevolence. This model provides a foundation for future discussion on the role of trust in cooperatives. The model also refers to different types of membership (member A, member B and member C) that occur in the life cycle of the cooperative. It shows how membership composition evolves and finally causes a heterogeneity problem.

Both specific assumptions on trust composition and membership composition are included in the model. On this basis, cooperatives' life cycles can be explained with regard to the growth processes and the dilemmas and problems that occur over time. At the same, the assumption can be made that trust, social capital and commitment diminish towards the end of the cooperative's life cycle. This is consistent with Svendsen and Svendsen (2000), who showed that the trust was reduced in Danish cooperatives when growth occurred and the dairy production was centralized. In similar vein, Fulton (1999) analyses situations where cooperatives put their focus on the final consumers and retailers' preferences in their economic growth strategy and, in parallel, find the membership's commitment and social capital and trust considerably reduced.

This paper's conclusions recapture the very same problem but suggests a new perspective. Thus, it contributes to the cooperatives literature because but also goes beyond its current limitations in that it examines different trust types, trust intensity and trust quality in the context of a cooperatives life cycle stages analysis. Future empirical research will need to explore the characteristic details of all stages of the cooperative life cycle, membership composition, and the levels and types of trust which determine the success and failure of cooperatives.

Finally, it is also important to consider that the model developed can be applied the management of social capital in cooperatives. If the trust and membership composition are analyzed on the basis of specific characteristic, it is possible to manage the organization in a way which can improve the level cohesion and the quality of trust. Social policies to manage the membership composition of cooperatives are not only costly but also an investment which can improve the level and quality of trust among the members. It ranks high on the research agenda to explain in detail a) how the trust



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destruction process unfolds, and b) how the level and quality of trust can be improved. Understanding both these processes will make it possible to increase the social capital of cooperatives and take full advantage of the specific forms of social cohesion which only exist in this special form of organization.

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<sup>i</sup>It is possible, also, that occur any cases of cooperatives that have economic growth with homogeneous membership.

<sup>ii</sup>“Pertencimiento”—“belonging”—is a Spanish word that refers to a member’s feeling of a belonging to a cooperative organization; he feels intensely that he is the owner, the user, and the manager at the same time.

## **Acknowledgements**

We extend our warmest thanks to our scientific committee and our evaluators for their thorough work throughout the call for papers and paper evaluation process. As well, we thank our many authors for having responded to our call for papers and for submitting their work.

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[www.sommetinter.coop](http://www.sommetinter.coop)

ISBN : 978-2-924765-41-8  
Dépôt légal – Bibliothèque et Archives Nationales du Québec, 2016  
Dépôt légal – Bibliothèque et Archives Nationales du Canada, 2016

## **Reference:**

BIALOSKORSKI NETO, Sigismundo., BACHMANN, Reinhard. 2016. The role of trust in cooperative organizations' life cycle. Lévis : Sommet international des coopératives, 17 p.

## **Published by:**